

**FEDERAL FINANCIAL ACCOUNTING AND AUDITING**  
**TECHNICAL RELEASE NUMBER 4**

**REPORTING ON NON-VALUED**  
**SEIZED AND FORFEITED PROPERTY**

July 31, 1999

The Accounting and Auditing Policy Committee (AAPC) was organized in May 1997 by the Office of Management and Budget (OMB), the General Accounting Office (GAO), Treasury, the Chief Financial Officers' Council (CFO), and the President's Council on Integrity and Efficiency (PCIE), as a body to research accounting and auditing issues requiring guidance.

The AAPC serves as a permanent committee sponsored by the Federal Accounting Standards Advisory Board (FASAB). The mission of the FASAB is to recommend accounting standards to the FASAB principals after considering the financial and budgetary information needs of congressional oversight groups, executive agencies, and the needs of other users of Federal financial information.

The AAPC is intended to address issues which arise in implementation which are not specifically or fully discussed in FASAB standards, interpretations of FASAB standards, OMB's Form and Content Bulletin or OMB's Audit Bulletin. The AAPC's guidance on accounting will be cleared by FASAB before a recommendation is forwarded to OMB for publication. The AAPC's guidance on audit issues will be cleared by OMB and GAO before being published by OMB.

The mission of the AAPC is to assist the Federal government in improving financial reporting through the timely identification, discussion, and recommendation of solutions to accounting and auditing issues within the framework of existing authoritative literature.

## **INTRODUCTION**

Guidance for the accounting and reporting of seized and forfeited property held by Federal entities is provided in the Statement of Federal Financial Accounting Standard No. 3, *Accounting for Inventory and Related Property* (SFFAS No. 3), issued in October 1993. This Technical Release is intended to clarify the required reporting of non-valued seized and forfeited property.

Agencies that must deal with non-valued seized and forfeited property should first refer to the hierarchy of accounting standards contained in the current Office of Management and Budget (OMB) Bulletin on "Form and Content of Agency Financial Statements" for guidance. Standards issued by General Accounting Office (GAO) and OMB have precedence over other authoritative guidance for federal entities.<sup>1</sup> This technical release supplements the relevant federal standards, but is not a substitute for and does not take precedence over the standards.

This Technical Release includes a discussion of the issues and recommended implementation guidance that is intended to clarify the reporting of non-valued seized and forfeited property. This guidance also provides more detailed terminology relating to the measurement of these non-valued items (see Appendix A for the list of terms).

## **BACKGROUND**

Federal entities implementing this standard have raised numerous questions requiring clarification of the reporting of non-valued seized and forfeited property. Numerous Federal entities' missions include the task of seizing non-valued property. Bureaus within the Departments of the Treasury and Justice are most directly affected by this issue.

Non-valued property either does not have a legal market in the United States, or does not have a salable value to the Federal government. These items may be abandoned, embargoed, prohibited, sensitive, or seized for forfeiture. Examples of such items could include illegal drugs, counterfeit currencies and monetary instruments, and firearms, which the Federal government, as a matter of law or policy, does not return to the owner or sell upon forfeiture. Federal agencies that seize these types of items have had difficulty in applying the concept of materiality and in the reporting of these types of items since they do not have monetary value. Consequently, Federal agencies have independently determined what types of non-valued property should be disclosed in the financial statements under SFFAS No. 3 and the units of measure, resulting in inconsistent disclosures between agencies and disclosures that lacked meaningful information.

While non-valued seized property does not have a monetary value to

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<sup>1</sup>The Federal Accounting Standards Advisory Board recommends accounting concepts and standards to its principals; the Department of the Treasury, the Office of Management and Budget, and the General Accounting Office. If all three principals approve a recommendation it is issued by OMB and GAO.

the Federal government, the sensitive nature of much of this type of property requires the same level of accountability and security as valued property, if not more. Agencies should ensure that their systems of internal control are adequate to provide sufficient accountability and security over this property in order to meet the reporting requirements provided in SFFAS No. 3.

SFFAS No. 3 prescribes that seized property shall be accounted for in the financial records of the entity that is operating as the central fund (see SFFAS No. 3, para. 60). Central funds are established to finance the costs of the seizure, management, and disposition of property, and to receive the proceeds from the sale or disposition of that property. However, since non-valued items do not have a financial value, the central fund is not responsible for reporting these items.<sup>2</sup> Accordingly, the seizing or custodial entity is responsible for maintaining sufficient internal records to maintain control over these items and would have reporting responsibility for non-valued items.

Chapter 3 of the Statement of Federal Financial Accounting Concepts No. 1, *Objectives of Federal Financial Reporting* (SFFAC No. 1), identifies the users of Federal financial reports and their information needs. Federal financial report users need information to assess the accountability, stewardship, and operating performance of Federal agencies and programs. To address the information needs of Federal financial report users, Chapter 4 of SFFAC No. 1 defines the objectives of financial reporting as budgetary integrity, operating performance, stewardship, and systems and control. The discussion of these objectives emphasizes the concepts of the entity's control over, accountability of, and accomplishment of Federal programs and activities.

Furthermore, to provide additional useful perspective, SFFAS No. 3 includes a discussion on the concept of materiality. Specifically, the concept of materiality includes both quantitative and qualitative considerations. Thus, an item that is not considered material from a quantitative standpoint may be considered qualitatively material. Accordingly, items would be considered qualitatively material if the judgment of a person relying on the information presented about such items would be influenced by the omission or misstatement of information presented about those items. SFFAS No. 3 states that an item that is not considered material from a quantitative standpoint may be considered qualitatively material if it would influence or change the judgment of the financial statement user. It should be noted that SFFAS No. 3 also clearly states that items of a sensitive nature held by an entity that are not considered material to the entity's financial statements need not be reported.

## **DISCUSSION OF ISSUES**

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<sup>2</sup>This is generally because the central fund does not take custody of nonvalued items.

The disclosure requirements for seized and forfeited property are outlined in paragraphs 66 and 78 of SFFAS No. 3. Among the requirements is a footnote disclosure to contain: a description of the composition of the property; the methods of valuing the property; restrictions on the use of forfeited property; changes from prior year accounting methods, if any; and an analysis of changes in seized and forfeited property. The analysis of changes in seized and forfeited property should provide the dollar value and number of properties on hand at the beginning of the year, seizures and forfeitures made during the year, property disposed of and method of disposition, and property on hand at the end of the year. This information should be presented by type of property where material.

While SFFAS No. 3 provides adequate guidance for reporting seized and forfeited items with a financial value, the standard has not been interpreted and applied consistently with respect to non-valued items.

Paragraph 148 of SFFAS No. 3 states that the standard was revised to address the disclosure requirements for non-valued items. For these items, the standard does not require the reporting of financial value, but it clearly requires the disclosure of all material forfeited property, including those items with no financial value. However, the standard does not address the disclosure of non-valued seized items. As a result, some reporting entities with seizing authority disclose non-valued seized items, and others do not. Clarification of the standard as it relates to non-valued seized items is needed to ensure consistent implementation.

With numerous professional disciplines involved in activities related to the seizure and reporting of non-valued items, some terminology has different meanings depending on whether it is used in a legal, accounting, or program management context. To provide for consistent and meaningful reporting, clarified definitions and standard units of measure are necessary.

#### **RECOMMENDED IMPLEMENTATION GUIDANCE**

An analysis of changes for all material non-valued seized property should be disclosed in the financial statement footnotes in the same manner as prescribed for non-valued forfeited property.

The definitions in **Appendix A** provide for consistent and meaningful reporting among Federal agencies that seize and/or forfeit non-valued items. The units of measurement for non-valued items provided in the **Attachment** are also designed to facilitate consistency in reporting among agencies. It is recognized that some agencies may be currently reporting in different measurement units and may be unable to convert their units of measurement for FY 1999 reporting. Such agencies may continue to report on their current basis for FY 1999 but should conform with the units of measurement provided in the **Attachment** for FY 2000 and subsequent years.

## **APPENDIX A: TERMS AND DEFINITIONS**

### **Abandoned Property**

Property of any type over which the rightful owner has relinquished possession and any claim of an ownership interest, without assertion of an adverse right to possession and control by the federal government. This would include property left at a government facility and unclaimed by the rightful owner following notice of intent to dispose. This property is a type of seized property.

### **Actual custody**

Physical possession and control of property by government personnel.

### **Central Fund**

A federal entity established to finance the costs of seizure, management and disposition of property seized for forfeiture, and to receive any proceeds from the sale or other disposition of that property.

### **Constructive custody**

Legal possession of property by federal government personnel through a non-federal agent, such as a commercial contractor or state or local official, under a legal agreement or court order that the agent maintains physical possession and control of the property on behalf of, and subject to the orders of, the Federal government personnel.

### **Custodial agency**

The federal agency that has actual possession of seized or forfeited property, or constructive possession of property through a non-federal agent. The custodial agency would be responsible for reporting material quantities of non-valued items.

### **Detained Property**

Property taken into custody temporarily for purposes of preserving the status quo (items in or around a crime scene) or to protect the government from liability for loss (luggage of an arrested traveler, vehicle of an arrested drunk driver), or determining Customs admissibility, with the intent to release the property as soon as it is no longer necessary to preserve the status quo or the owner can assume responsible custody. This action is not a seizure under the law and thus detained property is not considered seized property.

### **Embargoed Property**

Property that may be legal to possess or own in the U.S., but whose import/export is prohibited (e.g., Iranian carpets, Cuban cigars).

#### Forfeited property

Property of any type (currency, monetary interests, realty, intangible property, and tangible personal property) for which title has vested in the Federal government, over any other asserted legal interest in the property, by exercise of a legal forfeiture process.

#### Prohibited Property

Property for which no private right of ownership is recognized under U.S. law, or of which mere private possession is prohibited under U.S. law. Examples include certain controlled substances, counterfeit currency, counterfeit monetary and financial instruments, and certain firearms. This property is a type of seized property.

#### Seizing agency

The federal agency that seizes property as part of its law enforcement activities.

#### Seized property

Property of any type (currency, monetary interests, realty, intangible property, and tangible personal property) over which the federal government has exercised its power under law to assert possession and control in opposition to any other party asserting a legal interest in the property.

##### Seized for evidence

Property the federal government has seized for the sole purpose of preserving and protecting the property for possible use in civil or criminal judicial proceeding. The expectation is that the property will be returned to its rightful owners upon conclusion of the judicial proceedings. However, circumstances can allow the status of property seized for evidence to change to property seized for forfeiture.

##### Seized for forfeiture

Property the federal government has seized for the purpose of transferring title to the federal government through exercise of a legal forfeiture process. This includes property seized for forfeiture that also may be used in an evidentiary proceeding.

##### Seized for tax purposes

Property the federal government has seized for the purpose of satisfying a tax liability to the federal government through exercise of a legal tax enforcement process. This includes property seized for tax purposes that also may be used in an evidentiary proceeding.

#### Seized for other purposes

Property the federal government has seized for purposes other than for evidence, for forfeiture, or for tax purposes. Examples of property in this category include seizures for satisfaction of debts owed the government, for protection of public safety or navigation (adrift vessel), and for preservation of environmental conditions (sinking vessel). This includes property seized for these other governmental purposes that also may be used in an evidentiary proceeding.

#### Sensitive items

Items that could be a hazard or threat to public safety or the economy in Federal custody that would cause discredit or embarrassment to the Federal government if it lost accountability over those items.



## ***MEASUREMENT OF NON-VALUED ITEMS***

<b>CATEGORY</b>	<b>STANDARD UNIT OF MEASUREMENT</b>
<b>Illegal Drugs</b>	
Cannabis	Kilograms
Cocaine	Kilograms
Heroin	Kilograms
Methamphetamine/Amphetamine	Various
Other Categories <sup>3</sup>	Various
<b>Firearms and Explosives</b>	
Legal Firearms	Number
Illegal Firearms	Number
Ammunition	Rounds
Explosives	Number
<b>Counterfeit</b>	
Currency - Completed (U.S. & Foreign)	Number of
Credit Cards	Number
Other (e.g., other counterfeit)	Number

NOTE: This is not intended to be an all-inclusive list. Other categories should be considered as appropriate.

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<sup>3</sup> Other categories include material amounts of other drugs seized, to be separately reported by liquid weight, dry weight, tablets, or other appropriate measurement.